



all about sme funding

simple cheat sheets for debt products

Funding is often an essential part of the journey to success for every business. In fact, 50% of business owners will need debt finance at some point. For an accountant, this translates into 15% of clients that will seek funding or refinancing each year. There are enumerate funding solutions that exist for small businesses all catering for different purposes, industries, businesses sizes etc. Choice is great, but it makes it difficult for your clients to cut through the noise and figure out the best solution. That's why Capitalise is here - we've got your back. We make it easier to figure out the most appropriate solution for your client. To help you and your clients along the way, we have bucketed the funding solutions into 6 types and created a 'cheat sheet' for each.

Read through bite-size chunks on:

1. Asset Finance
2. Invoice Finance
3. Merchant Cash Advance
4. Property Finance
5. Trade Finance
6. Working Capital Finance

1. Asset Finance

Purchasing new assets is an essential part of growth for a business, however, cash flow often limits the expansion rate. Outlying large, upfront payments for new equipment, tools and machinery can really affect the day-to-day running of a business but failing to invest can see a customer base begin to suffer.

Asset finance can help businesses overcome this common pitfall. Lenders are able to either purchase the asset on behalf of the business, allowing the cost to be spread across affordable monthly repayments or simply lease the equipment for as long as it's needed.

Hire Purchase

Think of a finance lease in which the lender is the legal owner of the asset, however, the monthly payments work towards full ownership of the asset at the end of the term, rather than simply leasing it for its economic life.

Operating Lease

This is a great option for businesses who rely on plant, machinery and tools to carry out their services or produce a product. Payments are made until the expiry date of the agreement, at which point the business will pay the



a product. Payments are made until the expiry date of the agreement, at which point the business will pay the difference between the original purchase price and the remaining value.

Finance Lease

Similar to renting equipment, a business will typically lease the asset for its economic life meaning that you'll never be left with outdated equipment. This gives business owners the flexibility of full, unrestricted access to the tools without the burden of ownership.

Contract Hire

Most commonly used for accessing new vehicles. Payments are calculated based on the purchase value and estimated residual value of the vehicle at the end of the agreement. It's usually sold once the contract expires which helps to drive down the monthly repayments for the duration.

Refinancing

It's never been easier to raise capital through existing assets by refinancing a loan against current equipment. This can help a business quickly and easily secure additional finance from assets if they'd rather invest funds elsewhere in the business. Capitalise has partnered with lenders who specialise in providing asset finance to a vast array of industries, ensuring that businesses have access to the assets needed as well as dealing with sector specific professionals who understand business owner's needs.

2. Invoice Finance

Waiting weeks or sometimes even months for raised invoices to be settled by customers can inhibit a business's ability to stay on top of daily cost and expenses. Also, the time spent chasing up these invoices could be better served elsewhere in the organisation. This is where invoice finance can help. Selling your invoices in exchange for a fee can help bridge cash flow gaps and ensure that business continues as usual.

How Invoice Finance Works

Original invoices are sent to the customer(s) and copies to the lender. The business will receive up to 95% of the invoice amount - usually within 24 hours. Once the lender is paid by the customer(s), the business will receive the balance minus agreed-upon fees

Invoice Discounting

It has become one of the most popular methods used by business owners dealing with delayed payments. Instead of waiting up to 120 days for payment, a business can advance an agreed percentage of each due payment



with the remainder paid into their account, minus fees, once the customer settles the outstanding balance. The business owner is able to retain complete control of their sales ledger throughout this process and will still be responsible for chasing up invoice payments and engaging with the funding service.

Invoice Factoring

Managing a sales ledger as well as overseeing credit control can be both daunting and costly for the business owner. Invoice factoring takes things one step further than invoice discounting by chasing up all raised invoices on behalf of the company. The business won't need to chase an advanced invoice again, but they will benefit from regular credit checks to ensure that their customers continue to meet the terms of arranged credit facilities. As well as retaining complete responsibility of credit control and sales ledger, business customers will speak directly with experienced accounting individuals, ensuring that they're always dealt with in a friendly, professional and efficient manner.

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4. Merchant Cash Advance

Big changes in turnover can be a real headache for businesses looking to source and repay finance. Repayments may be affordable during busy periods but challenging when turnover dips. If a business takes regular credit and debit card payments from customers, they may be eligible for a merchant cash advance. The security of lump sum lending with flexible, proportionate repayments.

Instead of a fixed monthly repayment schedule, businesses can repay part of the loan with each customer card payment, through the terminal. During busy periods, they'll repay more but won't have this pressure during seasonal revenue dips. At Capitalise, we match businesses with experienced lenders in their sector. Whether that's retail, manufacturing, distribution, leisure, or any other facet of UK industry, we'll ensure they receive a competitive rate that's both affordable and tailored to the business.

How Merchant Cash Advance Works

The advance is unsecured which means your house is not at risk. No fixed payments as you pay back a percentage of credit card sales. No interest charges so you'll know upfront how much the advance will cost.

5. Property Finance

For businesses operating in construction, property investment, development industries, or any business planning on buying their own premises, sourcing finance can be challenging at the best of times. Changes in financial regulations have seen traditional lending streams tighten criteria leading to missed opportunities within the market due to a lack of funding.

Commercial Mortgage

A great finance solution for purchasing a business property, long term investment or to raise capital by refinancing premises that the business already owns. The mortgage is taken out over an agreed number of years with any charges, interest rates and fees transparently outlined upfront, so the business is able to budget effectively. Most come with a variable interest rate, however, fixed interest rates are available from certain specialist providers. Available across almost every business sector, the main requirements are that the business has enough funds to put down a deposit and can provide evidence that monthly repayments will be made on time.



Bridging Loans

Bridging loans are essential for businesses who want to take advantage of the purchase of new premises. They're ideal when a business needs fast access to property finance, such as purchasing a property at an auction, plugging the cashflow gap until a renovation is completed or whilst they're waiting for a more traditional mortgage to be approved. Similarly, if an opportunity arises to take on a new property but the company is still waiting to sell, a bridging loan can help to inject additional capital into the business, so they don't miss out.

6. Trade Finance

One of the biggest stumbling blocks faced by SMEs and importers looking to grow their customer contracts is the ability to fund large orders from suppliers. Although credit facilities can be obtained from suppliers, businesses often receive less favourable terms as well as having to stick rigidly to the credit limit they've been given. With trade finance, the lender provides up to 100% of the stock needed by the business, paying the supplier directly and securing the finance against purchase orders and finished goods.

This quick and convenient lending stream gives businesses access to 'cash buyer' rates delivering orders on time and to the standard expected by customers. Capitalise works with specialist trade finance lenders who have extensive experience providing funding at every step of the supply chain. Businesses can take advantage of this expertise when it comes to dealing with documentation, insurance, invoice collections and even delivery. If the supplier is based abroad and looking to import goods, most companies are equipped to provide finance in many of the world's most popular currencies. Businesses only repay the trade finance loan once they're satisfied with the purchase order from the client, giving the business plenty of breathing space when it comes to settling the balance.

How Trade Finance Works

The lender can provide up to 100% of the purchase price of the goods. The purchase is usually made directly by the lender. Finance is secured against the trade debt, and the lender owns the goods for the first part of the supply chain.

7. Working Capital Finance

Working capital finance is a multi-purpose, flexible, short term loan which can be used to drive growth almost anywhere within your organisation. For those unexpected day-to-day running costs of a company that put working capital at risk, a working capital loan can become a business owner's best friend. In today's market there are a number of different names for these types of loans. Unsecured loan, peer to peer, revolving credit facility, working capital to name a few. The simplest way to categorise these:

1. Line of credit (minimum monthly payments that let business draw and repay at a time that suits them)
2. Term loan (pay back over time)



Unlike traditional business loans, working capital finance can be issued within a matter of days from approval and can be used to cover everything from staff wages and utility bills to office supplies and tax bills. Many providers don't require a specific use within the application.

Features of a Working Capital Loan:

1. Not restricted to one specific purpose
2. The loan is paid out in days of approval
3. Customised to your business model - term loan or line of credit